# Exhibit B

August 30, 2024 Email

# Case 25-10068-CTG Doc 416-2 Filed 02/13/25 Page 2 of 8

To: Matthew Dunn[mdunn@gordonbrothers.com]; Dwyer, Jeffrey[jdwyer@alvarezandmarsal.com]; Kyle

Shonak[kshonak@gordonbrothers.com]

**Cc:** Prendergast, Michael[mprendergast@alvarezandmarsal.com]

From: cpincus@gordonbrothers.com
Sent: 2024-08-30T16:45:11Z
Importance: Normal

Subject: RE: [EXTERNAL] RE: GB/JAS Received: 2024-08-30T16:45:03Z Joann Inventory Shrink (240812 at 1100).pdf

Cameron Pincus | Gordon Brothers | 585.478.8782

From: Matthew Dunn <mdunn@gordonbrothers.com>

Sent: Friday, August 30, 2024 12:12 PM

To: Cameron Pincus <cpincus@gordonbrothers.com>; Dwyer, Jeffrey <jdwyer@alvarezandmarsal.com>; Kyle Shonak

<kshonak@gordonbrothers.com>

Cc: Prendergast, Michael <mprendergast@alvarezandmarsal.com>

Subject: RE: [EXTERNAL] RE: GB/JAS

Jeff and Michael,

See the below reserve rationale for the reserve to discuss on the call.

### Material Deterioration in Financial Performance

- Sales trend YoY is down 9.9% since emergence, with weekly performance outlined below.
   Trends are getting worse as the Company is down ~12.4% YoY over the trailing 4-weeks and are down \$4.9mm (3.7%) vs. latest forecast
- Post-emergence, the Company has never had a positive year-over-year sales comp in any week.

<b>Weekly Sales YoY D</b>	ecline Sino	e Emerge	nce(\$ in n	nillions)											
Forecast vs. Actuals Week Number Week ending	Act 5/4/24	Act 5/11/24	Act 5/18/24	Act 5/25/24	Act 6/1/24	Act 6/8/24	Act 6/15/24	Act 6/22/24	Act 6/29/24	Act 7/6/24	Act 7/13/24	Act 7/20/24	Act 7/27/24	Act 8/3/24	Act 8/10/
Sales	31.2	31.8	30.0	32.2	32.3	31.6	32.0	31.8	32.4	31.9	31.1	30.3	30.3	31.7	3
% to Prior Year	(9.7%)	(8.6%)	(4.9%)	(9.5%)	(9.4%)	(3.7%)	(5.6%)	(7.8%)	(13.3%)	(11.6%)	(10.6%)	(13.1%)	(14.0%)	(14.0%)	(10.
Current Year Sales Prior Year Sales	31.2 34.6	31.8 34.7	30.0 31.6	32.2 35.5	32.3 35.7	31.6 32.8	32.0 33.9	31.8 34.5	32.4 37.4	31.9 36.0	31.1 34.8	30.3 34.8	30.3 35.3	31.7 36.9	3
Difference % to Prior Year	(3.4) (9.7%)	(3.0)	(1.5) (4.9%)	(3.4) (9.5%)	(3.4) (9.4%)	(1.2) (3.7%)	(1.9) (5.6%)	(2.7) (7.8%)	(5.0) (13.3%)	(4.2) (11.6%)	(3.7) (10.6%)	(4.6) (13.1%)	(5.0) (14.0%)	(5.2) (14.0%)	(10.

- Comparison of actuals vs the 3/8 monthly business plan by month below.
- Plan had forecast sales for these three months would be down 1.4% YoY they are actually down 9.9% YoY, so the variance vs. plan is down 8.5%.
- The deterioration in financial performance is due to a number of factors including lack of inventory which is described in the following bullet.
- Excess availability as of the borrowing base delivered on 8/28/24 was \$50.8 million which was \$63.6 million below projected excess availability for the month-ended August '24 in the Business Plan dated 3/12/24 driven by revolver borrowings being materially above plan (+\$55.5 million) given the decline in financial performance. Excess availability was \$18 million below plan when comparing the 8/7/24 borrowing base to the weekly cash flow forecast delivered to the lenders on 5/22/24.

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Actual Sales vs. Bus	iness Plan	Sales (\$ in	millions)	
Fiscal Month	May	June	July	Total
Month Ending Date	6/1/24	7/6/24	8/3/24	
Actual Sales	126.2	159.7	123.4	409.4
Business Plan Sales	135.5	171.7	140.0	447.3
Difference	(9.3)	(12.0)	(16.6)	(37.9)
Percent Difference	(6.9%)	(7.0%)	(11.8%)	(8.5%)

# Inventory Challenges

- The Company relayed to the lenders that only 40% of the on-hand goods were full in-stocked meaning there were holes in 60% of the inventory. This has had a negative impact on the business as despite store traffic being up, per management, the sales are below plan and YoY per the above.
- Using the projections delivered to the lenders on 5/22/24, in-transit inventory levels were \$35.7 million (38.5%) below plan (\$57.1 million actual vs. \$92.8 million projected) as of the 8/7/24 borrowing base.
- Given the significant holes in the inventory the gross recovery in the appraisal is likely overstated.

# • Actual Shrink in Excess of Company Methodology

- Ordon Brothers recently observed inventory counts for five Joann stores. The results highlight a significant difference between actual shrink (percentage variance between book inventory and actual inventory) and shrink calculated using a historical percentage of sales method. Gordon Brothers' actual shrink averaged 2.7% across the five stores vs. Joann's ~1.4%. The percentage of sales method is commonly utilized by retailers to make quick and 'normalized' shrink estimates but may significantly deviate from actual shrink levels because the method does not require an actual inventory examination.
- o Full analysis and calculations included in the attached.

### Borrowing Base Likely Overstated

- Based on the above the borrowing base is likely overstated by ~\$25.4 million comprised of the following factors:
- \$16.9 million driven by the NOLV being too high given recent underperformance outlined above.
  - Given the sales decline the multiplier in the appraisal is likely overstated and the sale term would need be elongated to reflect reduced sales velocity which would in turn reduce the NOLV.
  - The longer sale term would lead to increased liquidation expenses including higher payroll, store occupancy costs, etc. directly reducing the NOLV.
  - The impact to the borrowing base would be a ~\$17 million decline if the NOLV were to reflect actual trends (see below table).
  - Note that despite the gross recovery likely being overstated due to the unfavorable inventory mix (60% not fully stocked) described above, the below analysis kept the gross

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recovery the same.

\$8.5 million driven by shrink being under-reserved as per the attached. If the shrink reserve
were to reflect actual observed shrink the borrowing base would decline by \$8.5 million (see
below table).

Jo-Ann Stores (Sin 000s)

Month
# of Weeks
Inventory - Cost Inventory - Retail (SP) CF%
Total Gross Recovery GR%-Cost GR%-Retail(SP) GM%
Liquidation Costs
Subtotal - payroll
Store occupancy costs
Advertising and promotional costs
Subtotal - Other Store Operating Costs
Total Store Expenses
Subtotal - Admin & DC payro II
Subtotal - Other Operating Costs Total Administrative & Distribution Expenses
On site Management
Total Liqui dation costs before fee
Agent's Fee
Total Liqui dation costs & Agent's Fees
Net Recovery
NR% Sales NR% - Cost
NR%-Retail

Hilco 12	month!	Model (Iss	ue d July 202	24)
Sept				
10.8				
625,125				
1,371,279				
45.6%				
794,511				
127.1%				
57.9%				
21.3%				
\$	Ret Pts	Cost Pts	Per Str wk	% Sales
65,216	4.76	10.43	7.54	8.2%
72,641	5.30	11.62	8.40	9.1%
19,198	1.40	3.07	2.22	2.4%
32,919	2.40	5.27	3.81	4.1%
189,974	13.85	30.39	21.96	23.9%
10,283	0.75	1.64	1.19	1.3%
7,822	0.57	1.25	0.90	1.0%
18,199	1.33	2.91	2.10	2.3%
11,398	0.83	1.82	1.32	1.4%
219,571	16.01	35.12	25.38	27.6%
30,854	2.25	4.94	3.57	3.9%
250,425	18.26	40.06	28.95	31.5%
544,086	39.68	87.04	62.90	68.5%

68.5% 87.0% 39.7%

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8/28/24 BBC

Shrink Reserve per Borrowing Base (a) 8,029,705

On-Hand Inventory at Cost (b) 634,227,006

Implied Shrink Reserve as % of Inventory Cost (a) / (b) 1.27%

Shrink Observed in Actual Counts (c) 2.71%

Shrink Reserve based on Actual Counts (d) ((b) \* (c)) 17,168,525

Increase to Shrink Reserve Needed (d) - (a) 9,138,820

September NOLV 87.0%

Gross Inventory Advance Rate 107.5%

Impact to Availability (8,547,081)

Best, Matt

Matthew Dunn | Gordon Brothers | 617-943-1198

-----Original Appointment-----

From: Cameron Pincus < cpincus@gordonbrothers.com>

**Sent:** Friday, August 30, 2024 9:05 AM

To: Cameron Pincus; Dwyer, Jeffrey; Matthew Dunn; Kyle Shonak

**Cc:** Prendergast, Michael **Subject:** [EXTERNAL] RE: GB/JAS

When: Friday, August 30, 2024 1:00 PM-1:30 PM (UTC-05:00) Eastern Time (US & Canada).

Where: Microsoft Teams Meeting

# Microsoft Teams Need help?

# Join the meeting now

Meeting ID: 263 284 732 08

Passcode: nSc7WN

# Dial in by phone

+1 857-410-1651,,231090488# United States, Charlestown

Find a local number

Phone conference ID: 231 090 488#

# Join on a video conferencing device

Tenant key: gordonbrothers@m.webex.com

Video ID: 118 596 416 6

More info

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For organizers: Meeting options | Reset dial-in PIN

From: Dwyer, Jeffrey <jdwyer@alvarezandmarsal.com>

Sent: Thursday, August 29, 2024 5:58 PM

To: Matthew Dunn <mdunn@gordonbrothers.com>

Cc: Kyle Shonak <a href="mailto:kshonak@gordonbrothers.com">kshonak@gordonbrothers.com</a>; Prendergast, Michael <a href="mailto:mprendergast@alvarezandmarsal.com">mprendergast@alvarezandmarsal.com</a>;

Cameron Pincus < cpincus@gordonbrothers.com >

Subject: Re: [EXTERNAL] RE: GB/JAS

Hi Matthew,

Yes, we are free at 1 pm ET if that works for you?

Thank you, Jeff

On Aug 29, 2024, at 5:46 PM, Matthew Dunn < mdunn@gordonbrothers.com > wrote:

Hi Jeff – Are you available to discuss tomorrow morning from 11am ET on?

Thanks,

Matt

Matthew Dunn | Gordon Brothers | 617-943-1198

From: Dwyer, Jeffrey <jdwyer@alvarezandmarsal.com>

Sent: Monday, August 26, 2024 12:34 AM

To: Kyle Shonak < kshonak@gordonbrothers.com >; Prendergast, Michael

<mpre>rendergast@alvarezandmarsal.com>

Cc: Frank Morton <fmorton@gordonbrothers.com>; Cameron Pincus <cpincus@gordonbrothers.com>;

Matthew Dunn < mdunn@gordonbrothers.com >

Subject: [EXTERNAL] RE: GB/JAS

Hi Kyle,

Thank you for your note. I would love the opportunity to discuss Gordon Brothers concerns and the proposed reserve on Joann.

I am free tomorrow anytime after 2 pm ET.

Best,

Jeff

From: Kyle Shonak <kshonak@gordonbrothers.com>

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Sent: Thursday, August 22, 2024 8:11 PM

To: Prendergast, Michael <mprendergast@alvarezandmarsal.com>; Dwyer, Jeffrey

<jdwyer@alvarezandmarsal.com>

Cc: Frank Morton <fmorton@gordonbrothers.com>; Cameron Pincus <cpincus@gordonbrothers.com>;

Matthew Dunn < mdunn@gordonbrothers.com >

Subject: GB/JAS

[EXTERNAL EMAIL]: Use Caution

Mike and Jeff,

We received your letters dated August 20. We will provide a more detailed response to the issues raised in the letters, but I wanted to send you this quick email to reiterate that it remains our objective to continue engaging in a productive dialogue with the Company.

To be clear, however, I did not "effectively concede" that the requested \$10M Availability Reserve is "entirely arbitrary." That is not an accurate or fair characterization of our discussions to date. In fact, shortly before we sent our Notice of Availability Reserve on August 16, I raised with you several conditions and events with the Company's performance and operations that substantiate the appropriateness of our request. These conditions and events (and other issues) will be set forth in our more detailed response to your letters.

The suggestion that we did not consult with the Administrative Agent is also not accurate. We consulted, and discussed our Notice of Availability Reserve with, the Administrative Agent before sending it to the Company.

We have been, and will continue to be, available to speak with you about the specific issues raised in our Notice of Availability Reserve and your business operations and performance more generally. Along these lines, I would like to accept the invitation to meet with you and your team at corporate HQ to discuss our concerns about the Company's recent performance. If you can please propose some dates that are convenient for you in the first few weeks of September, we will work quickly to reserve time on our calendars. In the meantime, our request for the establishment of an Availability Reserve against the FILO Borrowing Base in the amount of \$10M stands.

I look forward to meeting with you in September and remain available to discuss these issues with you before we meet.

kcs

Kyle C. Shonak Head of Lending | North America Senior Managing Director | Transaction Team **Gordon Brothers** 508.282.7491 / 617.275.9950

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# **Inventory Shrink Comparison**

Privileged and Confidential; Preliminary & Subject to Material Change

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Store	Book Cost	Counted Cost	Cost Variance	Actual Shrink	Joann's %	Shrink Variance
551	461,131	450,076	(11,055)	-2.4%	-1.2%	-1.2%
2281	529,970	517,850	(12,120)	-2.3%	-1.2%	-1.1%
2139	909,223	895,151	(14,071)	-1.6%	-1.7%	0.2%
1966	662,877	630,189	(32,688)	-4.9%	-1.2%	-3.7%
2409	590,433	574,987	(15,445)	-2.6%	-1.2%	-1.5%
	3,153,633	3,068,254	(85,379)	-2.7%	-1.4%	-1.3%

significantly deviate from actual shrink levels because the method does not require an actual inventory examination. percentage of sales method. Gordon Brothers' actual shrink averaged 2.7% across the five stores vs. Joann's  $\sim 1.4\%$ . The actual shrink (percentage variance between book inventory and actual inventory) and shrink calculated using a historical percentage of sales method is commonly utilized by retailers to make quick and 'normalized' shrink estimates but may Gordon Brothers recently prepared inventory counts for five Joann stores. The results highlight a significant difference between

<b>Illustrative Compariso</b>	n - Actual S	hrink v	parison - Actual Shrink vs. Percentage of Sales Methods (\$ in m	ales Met	thods (\$ in millions)	
	Actual Shrink	Shrink	% of Sales			
Line Item	(5-store GB)	e GB)	(Joann 8/7 BBC)	Variance	ince	
Available Inventory	\$	635.0	\$ 635.0	<del>-S-</del>	ţ	
Shrink %		-2.7%	-1.4%		-1.3%	
Shrink Reserve	\$	(17.2) \$	\$ (9.1) \$		(8.2)	
Eligible Inventory	₩.	585.5	\$ 593.7	₩	(8.2)	
NOLV %		85.3%	85.3%		Í	
Advance Rate %		90.0%	90.0%		1	

currently reflects. This would result in an incremental \$6.3mm reduction in inventory availability. The gap would also increase as borrowing base the resulting shrink reserve would increase to \$17.2mm, nearly double the \$9.1mm that the 8/7 certificate Joann receives more inventory. The effects of this methodological difference are shown above. If the 5-store actual shrink percentage were applied to the 8/7

Inventory Availability

8

449.5

455.8 \$

(6.3)

**Alix**Partners

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